

**Massachusetts Department of Housing and Community Development**

**The “Real Cost” of Operating Massachusetts  
Public Housing**

**ANALYSIS AND RECOMMENDATIONS**

**A Report of the Real Cost Task Force**

**February 4, 2008**

**Commonwealth of Massachusetts**

**Governor Deval Patrick  
Lieutenant Governor Timothy P. Murray  
Tina Brooks, Undersecretary, DHCD**

### **The Real Cost Task Force Members:**

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### **Task Force Staff:**

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## II. EXECUTIVE SUMMARY

### A. Public Housing and the Patrick/Murray Administration's Vision

The Patrick/Murray Administration was elected last year on a message of hope and optimism, with a pledge to foster equality and opportunity for all citizens, particularly the poor and others outside the mainstream of the economy. It understood that, with Massachusetts housing costs among the highest in the nation, such a pledge could only be met by preserving and expanding the state's public housing stock. And so the Administration signaled its intention to reverse 16 years of disinvestment in public housing by immediately increasing public housing operating subsidies by 33%, nearly doubling the annual allocation for capital improvements, and providing a precedent-setting volume cap allocation, bringing millions in private tax credit equity to public housing restoration.

The Administration took these actions because of its commitment to properly support and preserve the 50,000 units of state public housing—recognizing that they are one of the state's few housing resources that are truly affordable to anyone, no matter how low their income. For many of the seniors and families living there, public housing is the physical embodiment of the safety net that protects them from a fall into homelessness. For the tens of thousands of others on the waiting lists, it represents the hope of a stable, affordable home in a state where fair market rents often exceed a household's entire income. It is also the most cost-effective solution to providing affordable housing to households with extremely low incomes – those under 30% of the Area Median Income. The chart below compares the FY'08 costs of public housing – with the substantial increases in operating and capital funding noted above – to the FY'07 costs of Section 8 and MRVP rental housing vouchers.

<b>FY08 Estimated Public Subsidy Cost of State Public Housing vs. FY'07 Actuals for Sec. 8 and MRVP</b>				
<b>Program</b>	<b>Total Costs</b>	<b>Total Number of Households</b>	<b>Monthly Cost per Household</b>	<b>Annual Cost Per Household</b>
<b>Sec 8 Voucher Program FY'07</b>	\$203,912,042.00	18,726	\$907.44	\$10,889.25
<b>MRVP FY'07</b>	\$27,445,239.00	4,626	\$494.40	\$5,932.82
<b>Public Housing FY'08*</b>	\$150,113,590.00	47,998	\$260.62	\$3,127.50
<b>* Public Housing costs include \$60.1M operating subsidy and \$90M capital spending (inc. \$5M AHTF)</b>				

### B. The “Real Cost” Problem

Preserving this irreplaceable resource requires both capital and operating investments. Using a new capital planning system, DHCD is in the process of evaluating the capital

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needs of all state developments, and calculating the costs to restore the portfolio to an acceptable standard of quality. The Administration's increased bond cap has allowed DHCD to aggressively pursue this restoration.

**The true operating needs are harder to determine.** Despite Chapter 121B's mandate that DHCD subsidize the difference between the statutorily-limited rent collections and the actual cost of operating that housing, we do not know how much it should cost.

**Housing authorities have repeatedly been forced to artificially depress their budgets to minimize recorded operating deficits in order to justify the low levels of operating subsidy of various prior administrations.** In fact, housing authority non-utility budgets were frozen for four consecutive years (2003-2006) in spite of rising costs. It has been so many years since authorities were allowed to budget to need rather than a pre-determined amount that authorities no longer have the information necessary to determine what is really required.

### **C. The Solution – The Real Cost Study Process**

The only way to determine the true costs of operating the portfolio is to collect project-based data at each of the state's developments. DHCD is committed to doing this, but with over 700 conventional elderly and family developments and more than 500 scattered site family developments, the process will take years. In the meantime, DHCD sought to develop a credible estimate of aggregate costs that could provide a target for overall operating subsidies during this multi-year data collection period. It convened a panel of national housing experts and experienced housing managers (both public and private).

**The “Real Cost Task Force” was charged with calculating the cost of operating the state public housing portfolio to affordable housing industry standards, and framing the range of opportunities that could realistically reduce those costs while maintaining high property management standards.**

The Task Force was able to benefit from a three-year, \$3 million Harvard study used by the U.S. Dept. of Housing and Urban Development (HUD) in a similar effort to determine the real cost of federal public housing. The study involved a comprehensive analysis of the Federal Housing Administration (FHA) database of the budgets of over 1.5 million units of multifamily housing. The researchers examined 147 variables, found that only ten statistically affected the operating cost variations found among projects, and crafted a formula to use those variables to calculate a federal public housing project's fair operating cost. This methodology has since been implemented nationally by HUD for its 1.2 million units of federal public housing, and it was used as the basis of a 2005 CHAPA study evaluating the real cost of state public housing.

The Task Force took the HUD methodology as its starting point and sought to identify differences in the state portfolio that might suggest alterations to the methodology. It studied the matter for six months, analyzing national and local data and debating the impact of various variables on the cost of operating this portfolio.

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## D. Task Force Findings & Recommendations

The Task Force's primary findings and recommendations include:

- **The current real cost of operating the public housing portfolio requires operating subsidies of roughly \$115 million/year** (possibly more – see Obsolescence Factor, below).
- **This number is calculated using the above Harvard/HUD methodology, as amended by three changes recommended by the Task Force:**
  - Documented **state insurance savings of \$12.1 million** compared to private sector costs due to DHCD's public housing self-insurance program.
  - **Elimination of HUD's "non-profit factor"**, which would have added 10% to the average private sector cost to account for the cost of complying with public regulations and the obligations of a public mission.
  - **The creation of a new "Obsolescence Factor" to account for the higher cost of operating many state units in their advanced level of deterioration.** Because DHCD has not yet completed development of the tools and information needed to accurately measure the impact of unit deterioration on operating costs, the Committee chose to express the cost of this factor as a range, from a low end cost of \$7 million to an upper range of \$15 million.
- Recognizing the scope of this increase, the Task Force **recommends a series of gradual funding increases over a number of years to reach the full Real Cost level. Coinciding with the funding increases, there should be an annual review process, in which the methodology and assumptions of the Task Force would be assessed and updated depending on changes to the LHAs' cost structure and savings and efficiencies from the State's capital investments.**
- **DHCD should identify, evaluate and aggressively pursue all opportunities for cost savings and systems improvements to reduce the need for state subsidy.** The Task Force highlighted eleven targets for immediate implementation or study, including:
  - A movement to **project-based accounting**, to identify the sites with the highest operating costs and target them for improvements;
  - A major conservation effort to **reduce energy and water costs**;
  - Substantial and **sustained levels of capital funding**, to reduce the obsolescence factor in accordance with **complete capital needs assessments** for all state developments.
  - **Revised procurement laws and procurement assistance** to LHAs to reduce the impact of procurement laws on operating costs.
  - **A management assessment tool** to identify struggling LHAs early, before their difficulties become costly operational problems.
  - **Enhanced technical assistance to LHA maintenance staffs** to increase the quality and efficiency of their work.

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## **E. Implementation**

**The Task Force's increased operating subsidy recommendation comes as part of a recommended reform package** that aims to strengthen housing authority management practices and apply the project-based accounting methods that are universal in the private sector real estate world. By the time LHA budgets approach the estimated real cost of operations, DHCD expects to have replaced the current system, in which LHAs merge their projects into a single budget, with project-based reporting for both operating costs and capital needs. This will greatly enhance the ability of LHAs to identify and maximize efficiencies at the micro level, and will provide DHCD with a much richer database of information to exercise its oversight responsibilities on the macro level.

Some of these improvements are already underway, while others are in the early stages of review. **Highlights for 2008 include:**

- Completion of capital needs assessments for all family and elderly units (assessments on scattered-site family and special needs units are done);
- Creation and implementation of web-based LHA management assessment tool to enhance DHCD oversight;
- Creation of a task force to begin the three-year process of implementing project-based accounting.
- Implementation of a compact fluorescent light bulb initiative to significantly reduce electricity usage (and operating costs) by the end of the year, along with the planning and development of a host of other energy and water saving efforts.
- Proposal for procurement reform legislation to make small building-related contracts easier to bid and more attractive to small contractors, to reduce costs.
- Fundraising assistance to help authorities find outside support for supplemental operations.

## **F. Conclusion**

Coupled with the Administration's capital improvements program, the proposed phased increases in operating subsidies will shift the focus from not-so-benign neglect to strategic investment and preservation of an extremely valuable asset. The cost to restore and maintain this portfolio pales in comparison to the cost to recreate it (estimated at \$10 billion or more), were it even achievable to do so. **And even at the highest imaginable subsidy level, public housing is the most cost-effective way to provide affordable housing in the Commonwealth: offering 50,000 Section 8-style vouchers could cost nearly \$500 million each year.**

Thus, the recommended new level of operating subsidies for the state portfolio will protect a valuable asset for the long run, launch a significant reform effort to strengthen public housing operations and provide a cost-effective, critical safety net to give families, seniors and individuals with disabilities the stable home they need to have a fair shot at grasping life's opportunities – the home that everyone deserves.